This Stock Has Increased its Dividend for 18 Years Straight

Description

With it comes to dividend yields, bigger isn't always better.

Canadian National Railway (TSX: CNR)(NYSE: CNI) is a good example. At 1.5%, the yield on this stock is barely better than a Guaranteed Investment Certificate. Yet investors who pass over this name based on its meagre payout today would be missing out on some spectacular dividend increases.

Last January, the rail company hiked its dividend 16% to $1.00 per share annually — one of the largest dividend hikes in the company's history. Barring some sort of economic depression, the company will raise its dividend again next year, marking 19 consecutive increases.

Since the company went public in 1995 it has delivered a return, excluding dividends, of 2,820%. Over that time, management has increased its payout almost 15-fold. More dividend hikes are almost certainly on the way as its sales and earnings continue to climb.

The reason for such a rosy outlook? First, rail is cheaper than other forms of freight transportation. You can move a tonne of goods 470 miles on a single gallon of diesel. A train also takes 200 trucks off the road and emits far less pollution than an airplane. In a world of dwindling energy supplies, this advantage is only going to increase.

Meanwhile, the North American economy is growing. Many of the sectors that rely on rail transport are on the upswing, from automotive products to housing, chemicals, and steel. Crude by rail, which accounts for only a small percentage of Canadian National Railway's revenue today, is growing as oil companies look for alternatives to congested pipelines.

But the primary reason I like this company so much is its main asset: 20,000 route miles of track that cross North America from the Atlantic to the Pacific and the Gulf of Mexico.

It would be enormously expensive to reproduce this asset. Much of the firm's tracks were laid over a century ago when land was much cheaper than today. After buying the rights-of-way and getting approval from regulators, the business case to enter the railroad business doesn't make much sense.

That means incumbent players can earn excess returns for shareholders year after year without the worry of new competitors eating into their margins. It's conceivable that this business will be around 100 to 200 years from now. That type of long-term thinking is absent from most investing conversations when the topic turns to the next social media start-up.

To be sure, the railway company has its fair share of troubles. This past winter was one of the worst in decades, hampering the company's operations. However, with the spring thaw, management has reported that business is returning back to normal.

A more serious concern could be government regulations. A bumper prairie wheat crop has left Canadian National Railway scrambling to catch up with supplies, and farmers are growing disgruntled as their wheat sits in storage. Safety concerns about shipping crude by rail could also block off the industry's fastest-growing business segment.

The bottom line is this: We're going to have more people living in this country who are going to be using more goods over time. To steal an insight from famed rail investor Warren Buffett, we know in the next century that there will be 15 or so bad years, and we don't know what order those will be in. But we do know that rail will be essential to the country's future.

CATEGORY

1. Investing

TICKERS GLOBAL

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